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United Nations Relief and Works Agency for Palestine Refugees in the Near East

Report of the Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East*

Rapporteur: Mr. Hans Brattskar (Norway)

I. Introduction

Origin and background of the Working Group

1. The Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) was established by the General Assembly in resolution 2656 (XXV) of 7 December 1970 to study all aspects of the financing of the Agency. In that resolution, the Assembly requested the Working Group to assist the Secretary-General and the Commissioner-General of UNRWA in reaching solutions to the problems posed by the Agency's financial crisis.

2. At the twenty-fifth session and all those which followed, the Assembly considered the reports submitted to it by the Working Group¹ and adopted resolutions commending the efforts of the Working Group and requesting it to continue them for a further year.²

3. The Working Group consists of the representatives of France, Ghana, Japan, Lebanon, Norway, Trinidad and Tobago, Turkey, the United Kingdom of Great Britain and Northern Ireland and the United States of America. The Chairman of the Working Group is Mehmet U. Pamir (Turkey).

II. Activities of the Working Group during 2000

4. Throughout 2000, the members of the Working Group have followed with concern the difficulties experienced by the Agency and, in particular, the serious financial situation it continued to face. The Working Group held two meetings, on 11 September and 6 October 2000, to consider the recent developments in the Agency's financial situation and to prepare its report to the General Assembly. The Working Group adopted its report at its 124th meeting, on 6 October.

5. At its 123rd meeting, on 11 September, the Working Group heard a statement by the Commissioner-General of UNRWA, who submitted an up-to-date report on the financial situation of the Agency. The Working Group gave further

* In accordance with General Assembly resolution 54/248, sect. C, para. 1, this report is being submitted on 6 October after its adoption by the Working Group.



consideration to the report of the Commissioner-General at its 124th meeting on 6 October 2000 (see sect. III below).

III. Financial situation of the United Nations Relief and Works Agency for Palestine Refugees in the Near East

6. UNRWA once again faced a critical financial situation in 1999 which has continued into the present year. In 1999, UNRWA received income of \$260.7 million against a cash budget of \$322.1 million, leaving a deficit of some \$61.4 million in the cash budget. In cash terms, the Agency ended the year with a balance of \$14 million in its General Fund, although that amount included \$12 million advanced from year 2000 pledges in order to enable the Agency to meet its December payroll.

7. Deficits in the cash budgets for previous years had been covered out of working capital, a reserve that had been virtually depleted by the beginning of 1999. Working capital (the difference between assets and liabilities in the regular budget for a calendar year) stood at \$10.4 million at the end of 1999, although funds earmarked to procure basic commodities accounted for \$14.5 million worth of liabilities, leaving real working capital for the cash budget at a negative level of minus \$4.1 million. This level of working capital reserves fell far short of the minimum level of \$25 million, representing average monthly expenditure (of which \$17 million was for the Agency's payroll for some 21,000 area staff). Since cash income in 1999 fell far short of the regular budget, the Agency was obliged to carry forward the austerity measures implemented since 1997 and before. Cash expenditure in 1999 was also reduced slightly by the adoption of other measures, including managed vacancy rates and delayed recruitment for international and local staff posts, as well as the non-use of certain budget lines as a result of stricter financial controls. These measures, on top of the austerity measures already in place, had an unavoidable negative impact on the Agency's ability to deliver services at their preferred levels of quantity and quality.

8. Repeated funding shortfalls in recent years have severely eroded the cash position of UNRWA, as measured by the amount of cash on hand that could be

used to meet basic obligations. The continuing poor financial situation in 1999 made it impossible to build working capital. Yet, there were still at the end of 1999 outstanding and unpaid pledges amounting to \$36.9 million: \$12.7 million pertaining to the regular budget and \$24.2 million to project funding. Further strain was exerted on the cash position of UNRWA by the non-reimbursement by the Palestinian Authority of the value-added tax that the Agency had paid in the course of its operations in the Gaza Strip and West Bank. This totalled some \$18.5 million by the end of June 2000. In addition, some \$4.5 million for port charges remained to be recovered at the end of June 2000. There also remained a shortfall in funding for the European Gaza Hospital, and a deficit of \$5.2 million in the account set up to fund the costs of transferring UNRWA headquarters from Vienna to Gaza and Amman. That move was completed in 1996 but the budget for it remained underfunded and costs had to be met on a temporary basis from other accounts.

9. By the end of June 2000, the Agency faced the prospect of a deficit in its regular cash budget for the current year of \$27 million by the end of the year. Income for the year was expected to be \$253 million, against a cash budget of \$280 million. Meeting with the Working Group in New York on 11 September 2000, the Commissioner-General of UNRWA said that, as in previous years, the Agency faced the prospect of not being able to meet its operating costs in 2000, including its payroll obligations later in the year. On 26 September, at an informal meeting of the Agency's major donors and authorities hosting the refugees, held at Amman, the Commissioner-General said that, while contributions from most donors had increased in terms of their national currencies since 1995, the increases had not offset the negative impact of exchange rate fluctuations against the United States dollar, the currency used in calculating Agency expenditure. He noted that the Agency had, at that stage, lost more than \$10 million in income in 2000, mainly as a result of the devaluation of one currency, the euro, against the dollar.

10. In recent years, the Agency's major donors have responded repeatedly and generously to the special appeals made by the Secretary-General and the Commissioner-General for the funding of the regular and project budgets of UNRWA. At the most recent consultations held at Amman in September 2000, several donors announced new pledges, including one

of an additional \$9 million from a major donor for the current year. Once again in 1999 and 2000, the Commissioner-General and his colleagues have made strenuous efforts to keep donors informed, through the sharing of quarterly financial reports and the holding of regular consultations with donors and the host authorities. At the same time, the Agency continued to try to attract a reliable, sustainable flow of funds so that stopgap measures were not depended upon to meet ongoing and growing funding needs. In that context, UNRWA had appealed to donors to make payments of pledged contributions earlier in the calendar or budget years, and to ensure the payment of pledges on time.

11. The Commissioner-General told the Working Group on 11 September that a new budget format adopted by the Agency for the biennium 2000-2001 had been well-received by the major donors, as it had been previously by the Advisory Committee on Administrative and Budgetary Questions. He said, however, that the warm reception had unfortunately not been translated into the significant additional resources that the Agency had hoped for in order to bring funding up to the levels required to meet increasing refugee needs. The new budget format would be used as a management tool throughout the biennium to monitor output against plans and to reallocate resources as required.

12. New policies had also been adopted in 1999 for the engagement of area staff, beginning with teachers recruited for the 1999/2000 school year. Under these new policies, staff previously working on temporary contracts were offered fixed-term contracts with an improved package of entitlements. This was seen as a significant change in the employment practices followed by the Agency over the past few years, which could over the long term afford significant savings in expenditure on local staff costs while fulfilling the Agency's desire to be as fair and competitive an employer as its financial circumstances allow. With donor support, the Agency had also developed proposals for replacing its existing financial management and payroll systems and a new system is expected to be put into operation during 2001.

13. The share for 2001 of the UNRWA budget for the biennium 2000-2001, approved by the General Assembly at its fifty-fourth session, is some \$310.4 million, of which the cash element is \$289.7 million, compared with an expected cash expenditure of \$280.4 million in 2000. The budget for the biennium 2000-

2001 made no provision for the cost of termination indemnities for the Agency's area staff, which were estimated at some \$145 million.

IV. Concluding remarks

14. The Working Group is once again deeply concerned about the financial prospects for UNRWA, in particular after eight years of austerity measures which have eroded the level and quality of the services provided by the Agency to 3.7 million Palestine refugees. The Group emphasizes that it is the responsibility of the international community to ensure the maintenance of UNRWA services at acceptable levels, in terms of quantity and quality, as defined by the needs of the refugee community, and to ensure that service levels keep pace with the steady natural growth of the refugee population.

15. The Working Group appreciates that UNRWA has made significant progress towards eliminating the structural deficit problem that plagued the Agency in previous years, in particular through the use of contract teachers, reductions in international staffing and other reforms. The Group commends the Commissioner-General and all UNRWA staff for their tireless efforts to maintain the basic operations of the Agency, despite the constraints on the availability of resources that they have faced. It commends the Commissioner-General also for his fund-raising efforts and for his commitment to keeping the major donors and host authorities informed and involved, opening new avenues of support and funding and seeking a broader base of donors. The Group calls for the early and complete fulfilment of pledges and other commitments to the Agency, in particular the reimbursement of value-added tax and other charges by the Palestinian Authority, and the payment of funds for the European Gaza Hospital and for the move of UNRWA headquarters to the area of operations.

16. The Working Group expresses alarm at the continuing negative effect of austerity measures on the Agency's humanitarian operations. These measures have prevented programmes from expanding at a rate commensurate with the growth in the refugee population, necessitated curtailments in ongoing programme activities, and precluded certain actions which would normally be part of the Agency's regular programme of work. Most seriously, these measures have led to increased class sizes in Agency schools,

rising patient/staff ratios in the health services, and higher caseloads for social workers dealing with the poorest refugees.

17. The Working Group is pleased to note the introduction of regularized conditions of employment for staff who had been working on temporary contracts, and the adoption of new staff policies that will facilitate the employment of fixed-term staff on equitable terms. Over the long run, this could make a significant contribution to the reduction of costs, in particular in the Agency's largest programme, education. The Working Group appreciates, however, that this action is not a long-term solution to securing the funding of the Agency's regular activities on a sustainable basis. As for the effects of other austerity measures, the Group is concerned that freezes on regular budget allocations for university scholarships, rehabilitation of shelters and selective cash assistance have not only reduced the Agency's activities in those areas, but made them dependent on extrabudgetary contributions; that cuts in allocations for maintenance of facilities have led to the deterioration of the Agency's extensive physical assets; and that reductions in hospitalization allocations have meant that some patients who require hospital care may be unable to receive it. The Group is gravely concerned at the impact of these measures on the lives of the Palestine refugees, in particular in the areas of education and health care. The Group fears that additional austerity cuts could cause severe social and economic hardship to an already suffering refugee population, and that this would put an increased burden on the authorities hosting the refugees. The Group continues to believe that UNRWA plays a vital role in preserving the stability and security of the region, and that adequate funding of the Agency's programmes is essential to ensuring this.

18. The Working Group agrees that the problem of the refugees is deeply rooted in a political issue which originated more than half a century ago, and that it remains essential to settle this problem once and for all in accordance with all relevant United Nations resolutions. The problems faced by the refugees today are, however, humanitarian ones that must be addressed as a shared international responsibility. The services provided by UNRWA must be viewed as the minimum required to enable the refugees to lead decent human lives. Any further reduction in those services would not only unfairly deprive the refugees of the minimum

level of support to which they are entitled, but could also have a destabilizing effect on the entire region. Above all, the Group expresses the hope that the international support for UNRWA embodied in the resolutions adopted each year by the General Assembly, in which the Assembly recognizes the importance of the work of the Agency and requests that Governments contribute to it, should be translated into measures to ensure the survival of the Agency on a secure financial basis.

19. The Working Group therefore strongly urges all Governments to bear in mind the foregoing considerations when deciding upon the level of their contributions to UNRWA for 2001 and, once again:

(a) Urges Governments that have not yet contributed to UNRWA to start to do so;

(b) Urges Governments that have so far made only relatively small contributions to increase their contributions;

(c) Urges Governments that in the past have made generous contributions to UNRWA to continue to do so in a timely manner and to strive to increase them;

(d) Urges Governments that traditionally have shown special interest in the welfare of the Palestine refugees, both in the region and beyond, to begin contributing or to increase their contributions;

(e) Urges Governments to consider making special contributions sufficient to cover the deficit and build up working capital, so that UNRWA services can continue uninterrupted and the Agency can restore services cut as a result of the austerity measures, and to ensure that donor support of emergency-related and special programmes or capital projects does not in any way decrease or divert contributions to the Agency's regular programmes.

Notes

¹ For the consideration of the most recent report of the Working Group (A/54/477), see A/54/575.

² The most recent resolution being General Assembly resolution 54/70.